



# Supporting an audit finding

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## Cause of Pain & Suffering

- Vague expectations
  - What is important?
  - What do you want?
- Lack of resources
  - Time
  - A broken process
- Hurtful feedback
  - Coaching vs. editing vs. harassing
- A broad objective & bad audit

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**PROMISES, PROMISES!**

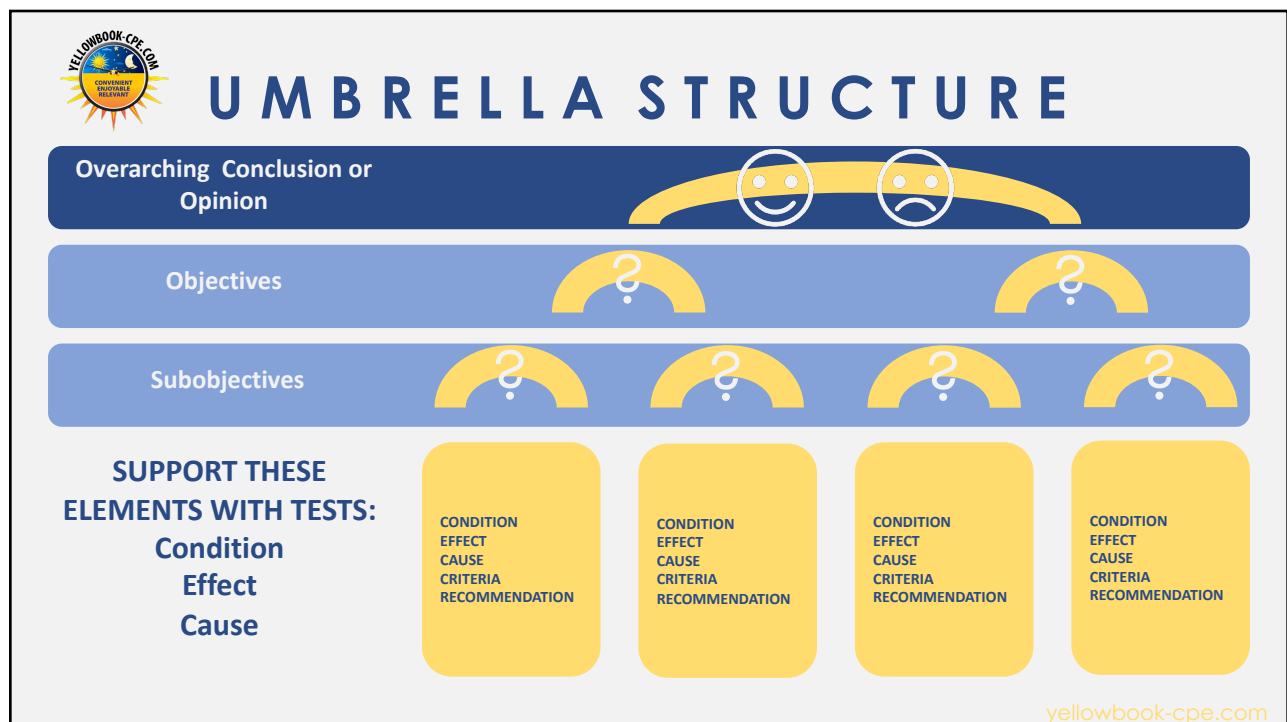
9.03 We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain *sufficient, appropriate evidence* to provide a reasonable basis for our *findings and conclusions* based on our *audit objectives*. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**Two deliverables:**

1. conclusion/opinion
2. findings

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## Mandatory ingredients of the audit report

**9.10** Auditors should prepare audit reports that contain

- (1) the objectives, scope, and methodology of the audit;
- (2) the audit results, including findings, conclusions, and recommendations, as appropriate;
- (3) a summary of the views of responsible officials; and
- (4) if applicable, the nature of any confidential or sensitive information omitted.

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**Nice façade.**

**Weak infrastructure.**



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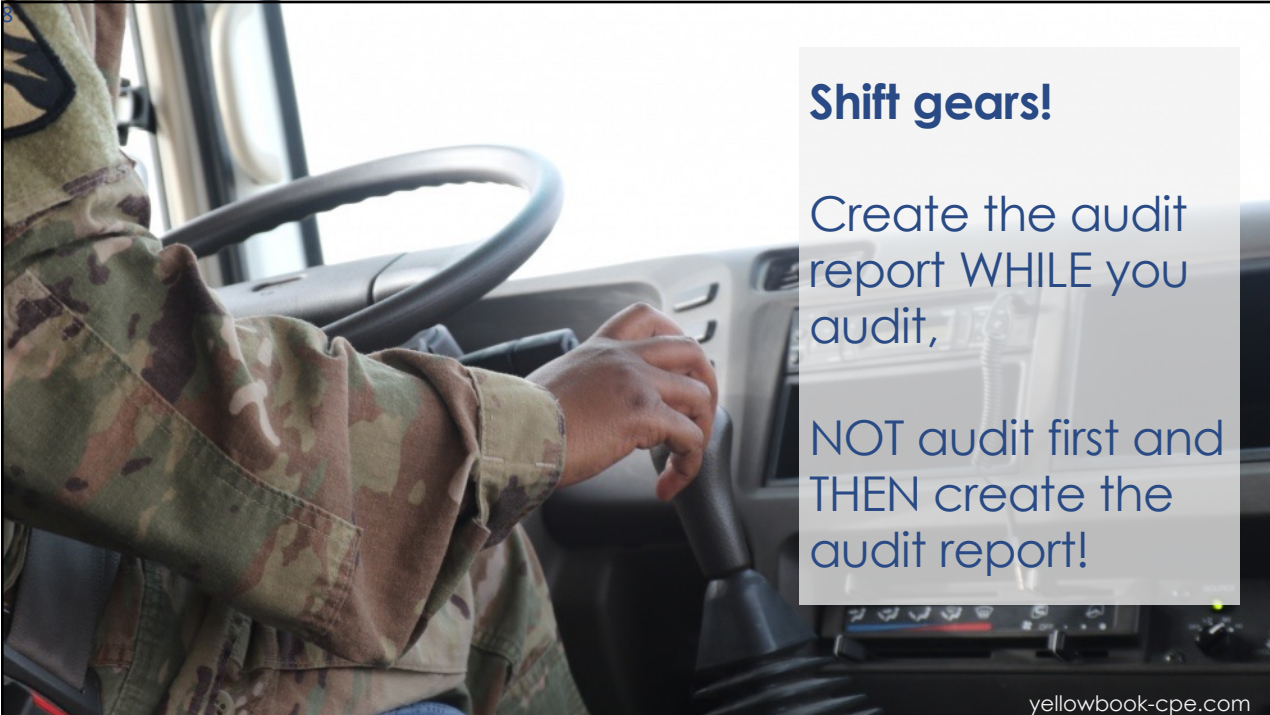
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# FINDINGS

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## Shift gears!


Create the audit report WHILE you audit,

NOT audit first and THEN create the audit report!

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## GAO'S YELLOW BOOK

1.02 – The concept of **accountability** for the use of public resources and government authority is key to our nation's governing process.

1.07 – Audits performed in accordance with GAGAS provide information used for oversight, **accountability**, **transparency**, and improvements in government programs and operations...When auditors perform their work in this manner and comply with GAGAS in reporting the results, their work can lead to improved government management, better decision making and oversight, effective and efficient operations, and **accountability** and **transparency** for resources and results.

3.08 A distinguishing mark of an auditor is acceptance of responsibility to **serve** the public interest.

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## This finding won't fly!

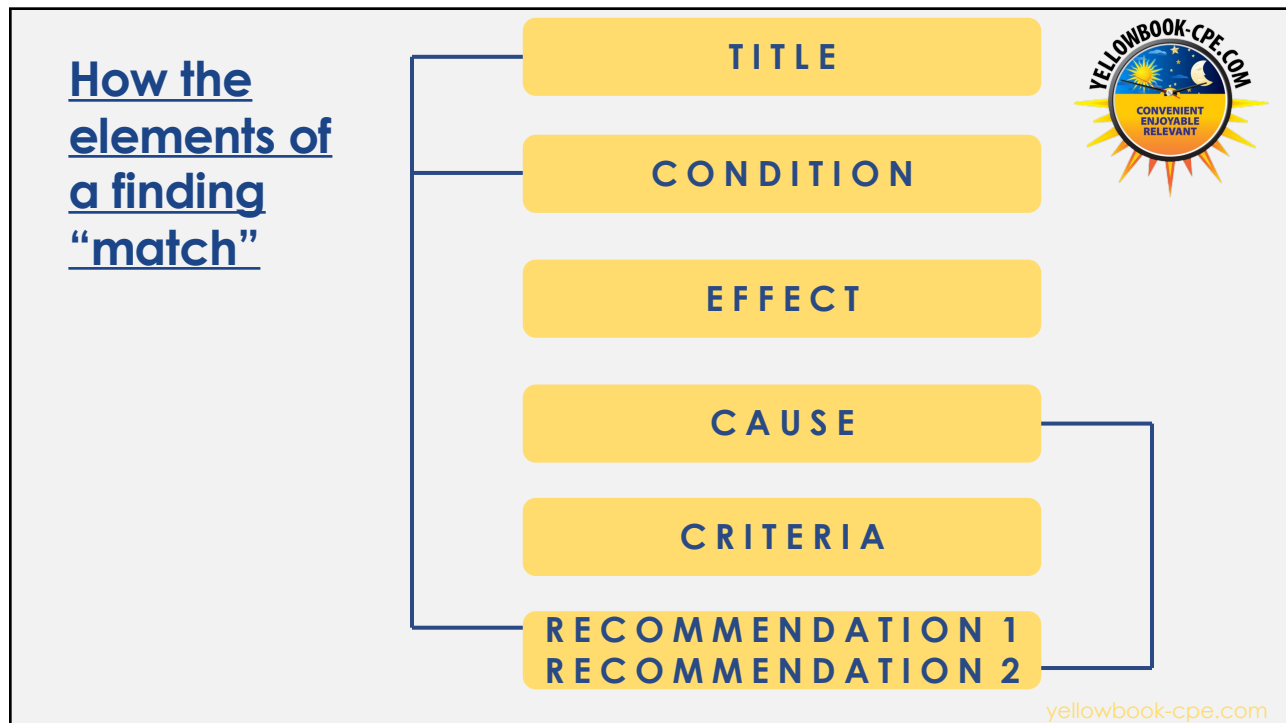
*Internal controls over eligibility are weak.*

*We recommend the entity strengthen internal controls over eligibility.*

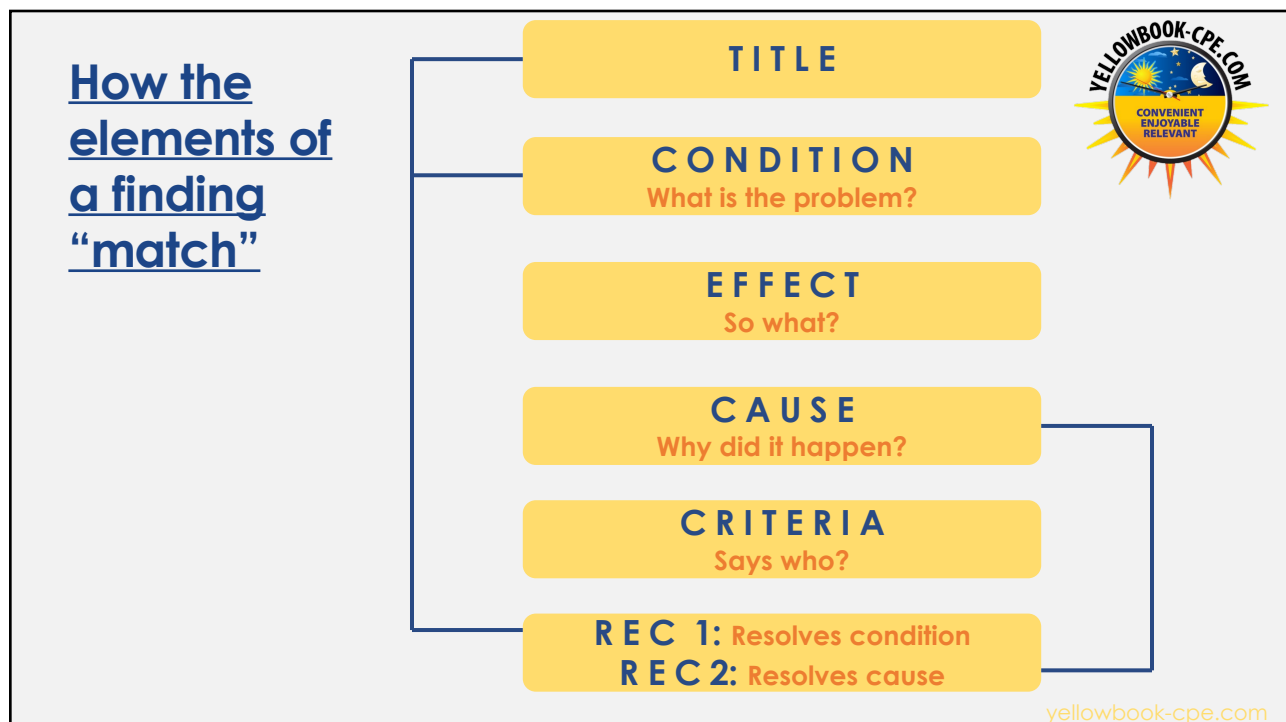


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## Small Business Grants

- Small business grant program
- To be eligible, small business must have less than 10 employees and be a 'non-essential' business
- Limited number of funds/significant waitlist
- Businesses who are not eligible are participating

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# CONDITION

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**Conditions are like Whack-A-Mole: they crop up everywhere!**



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CONVENIENT  
ENJOYABLE  
RELEVANT

**E F F E C T**

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## COMPELLING EFFECTS

- Quantified
- Highlight risks
- Sexy to reader
- Not vague, threatening, or futuristic
- Tied to evidence





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**Safeguard  
your  
credibility by  
avoiding  
unnecessary  
drama**



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## QUANTIFICATION

- Entire audit subject
- Fluctuation in audit subject
- True error
- Quantify in dollars, human impact, customer impact, impact on key performance metrics
- Benchmark against similar organizations

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## The Yellow Book Says...

9.21 Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as appropriate, related the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately.

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## 2 CFR §200.516 Audit findings.

(7) Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified must be **related to the universe and the number of cases examined** and be **quantified in terms of dollar value**. The auditor should report whether the sampling was a statistically valid sample.

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# CAUSE

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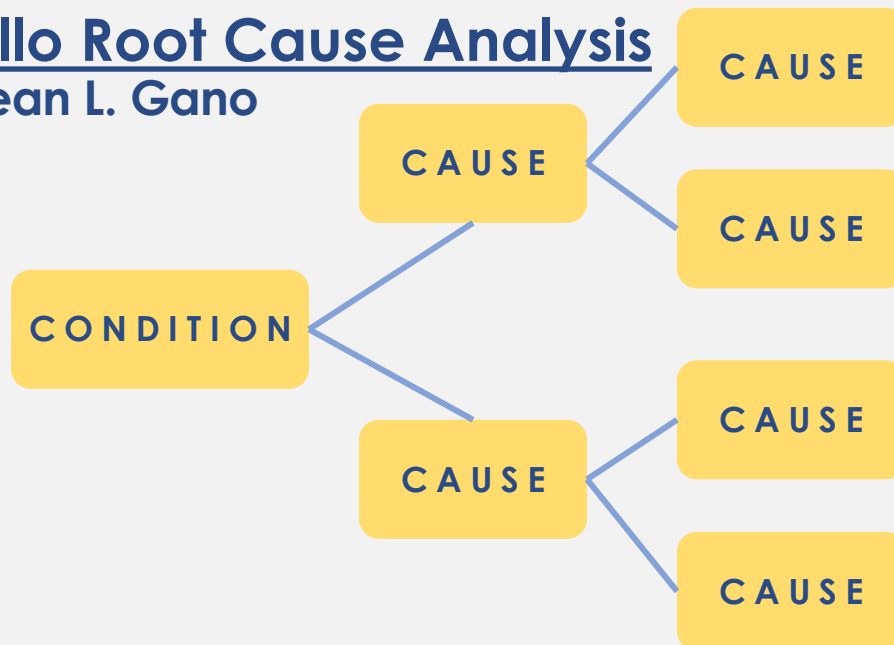
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RELEVANT

# DEAD END CAUSES

**Rude:**

- Lazy
- Stubborn
- Ignorant
- Incompetent
- Uncommunicative

**Obvious:**

- No money
- No time

**Crutches:**

- No P&P
- No training

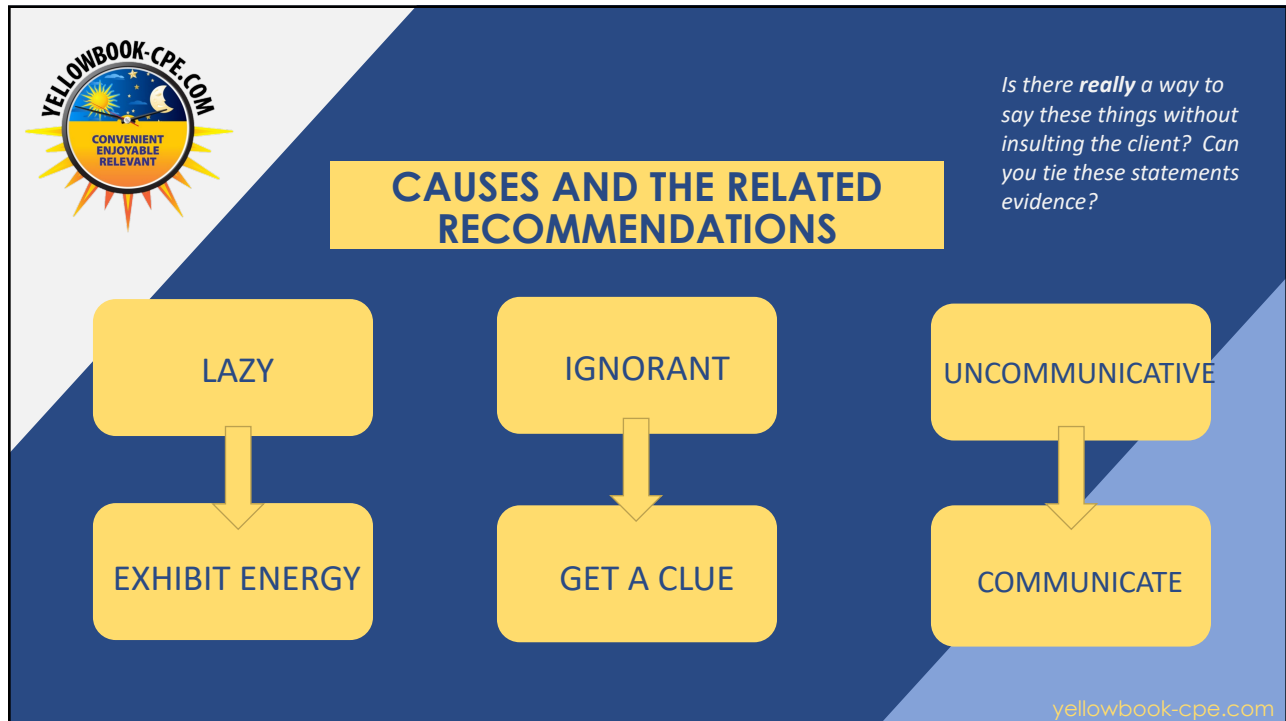


DEAD  
END

NO  
PARKING  
ANY  
TIME

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**6.29** Regardless of the type of finding identified, the cause of a finding may relate to one or more underlying internal control deficiencies.

**The most common **cause** is a **control weakness****

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**CRITERIA**

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**DEFINITION OF AN AUDIT**

**Evaluation of a SUBJECT MATTER against a  
given CRITERIA**


**Does  $A = B$ ?**

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**WHICH IS CRITERIA?**

**FEDERAL  
LAW**



**GOOD BUSINESS  
PRACTICE  
DICTATES...**



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**CRITERIA**

YB 8.124 Criteria may include the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations in the report.

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## WHICH CRITERIA IS RELEVANT?

SUBJECT MATTER	POSSIBLE CRITERIA
Financial statements	GAAP
Compliance	Laws, regulations, contract, policy
Performance audit	Benchmarks, standards, goals

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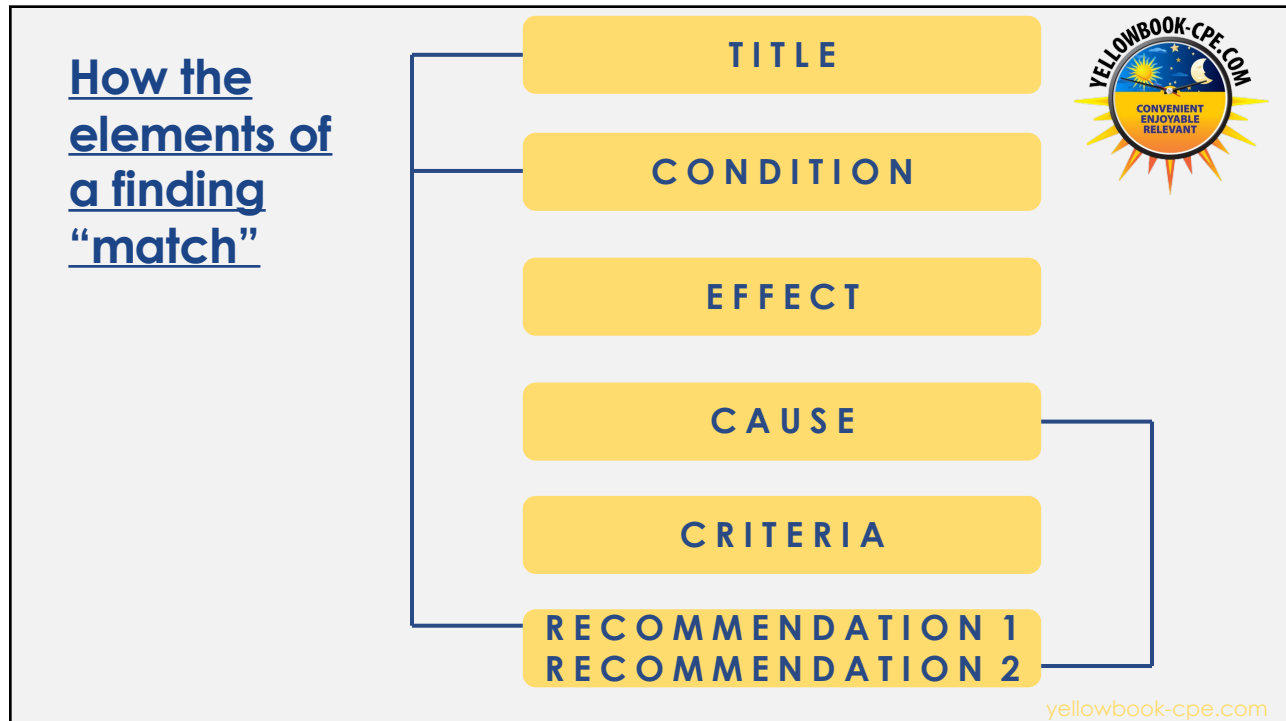
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## RECOMMENDATIONS

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**Recommendations**  
**MUY IMPORTANTE**

Start with the recommendation and match all the other elements to it

Makes sure the recommendation is:

**AUDITABLE**


- Can you prove it was implemented?
- Avoid the word 'consider'
- Assign responsibility to a role

**FEASIBLE**

- Will the auditee do it?
- Ask the auditee to create it

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## AUDITABLE?

1. We recommend that management consider implementing additional controls.
2. We recommend that management place a higher priority on controlling cash.
3. We recommend that management ensure that cash reconciliations are performed each month.
4. We recommend that the clerk performs cash reconciliations each month.
5. We recommend that the accounting manager sign off on cash reconciliations performed by the clerk each month.

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## Bones of the action plan

2 CFR 211

*Corrective action plan.* At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.



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**3 Stages to Editing**

There are three stages to editing.

1. Organization
2. Readability
3. Mechanical correctness

Remember to do these stages IN ORDER! If you do these steps out of order, you will waste your time.

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~~TRADEMARK LICENCING: The Trademark Licensing database was unable to prepare a report listing all of the fiscal year 2003 vendors and their royalties paid.~~ It is also unable to generate a report that breaks down the vendors ~~spelling error!~~ by components and the related amounts received for fiscal year 2003. The database is on Dbase III Plus, ~~WHY ARE YOU MENTIONING A SPECIFIC SOFTWARE?~~ and the Office of Information Resources (OIR) is not able to provide programming support to create any reports that do not already exist. ~~This sentence is awkward!~~


Since the auditee relies on the vendors to self report the correct amount of sales on which royalties are calculated; we could not verify the sales amounts without auditing the vendors themselves. ~~DID YOU CONSIDER AUDITING THE VENDORS? THAT SEEMS APPROPRIATE HERE...~~

~~Therefore, we selected a sample of 10 deposits from the accounting records and tested them to determine if they were valid and correct. We also selected 10 receipts from the Trademark Licensing Fund records and traced them to the accounting records in order to the accounting records were complete. We noted only one exception. A data entry error was made in Business and Administrative Services when recording the 91.5% of a receipt which should have been recorded in the clearing account. It was instead recorded in the operating account. The data entry error has been corrected.~~

Recommendation:

Although a system does exist to ensure that each vendor has a self-reported royalty revenue, there is no system to assure that the self reported amounts are accurate. ~~IS THIS ACTUALLY A CONDITION?~~ The auditee should consider the cost vs. benefit of requiring the vendors to have their outside cpa or Internal Auditor certify on a quarterly or annual basis that the sales amounts submitted to the University are correct. ~~The auditee could also, on a random basis, examine the books and records of any vendor in order to determine the accuracy of the self-reports. In addition, the auditee should consider an updated or new database that would allow users to run reports in any format that may be needed under the circumstances.~~

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## A Look at What NOT To Do

Check each finding:

- Is the most important information first in each finding?
- Are all elements of an argument covered?
- Do the elements match?
- Are the issues quantified?
- Is there any extraneous information that could be eliminated?
- Will I be satisfied if the auditee implements the recommendation? Auditable? Feasible?


Check the entire report:

- Does every finding have a similar pattern?
- Is the most important finding first?



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## THE HICKS

You are auditing a city who must comply with the Public Funds Investment Act. This Act requires that Texas governments protect the taxpayer's dollars by investing only in safe, well-chosen securities. The Act also requires that the investment officer of the city report investment results to the city council each quarter.

During an interview, you found out that the investment officer has a low opinion of the city council. He called them "A bunch of uneducated hicks..." and said they had no clue how the city operates. He also told you he tries to have as little to do with them as possible.

During testing for compliance with the Act, you found that the investment officer has not made the required quarterly reports for the past three years, although he has made annual reports.


You have already mentioned this problem to the city manager who replied that he trusts the investment officer and doesn't understand all that 'fancy investment stuff' anyway.

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## EXPECTATIONS FOR CRAFTED FINDINGS

- Use all 5 elements
- Create only one of each element
- Make sure the elements match
  - Condition matches recommendation
  - Cause matches recommendation
- Use concrete language
- Quantify
- Identify who is accountable
- Remove emotion & mild insults
- Ensure that the cause triggers the condition
- Imagine the evidence that backs up all elements

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## USE ALL 5 ELEMENTS

Or you leave your reader asking questions:

- What happened?
- Why does this matter?
- How did it happen?
- Who says what is going on is unacceptable?
- What should be done about it?

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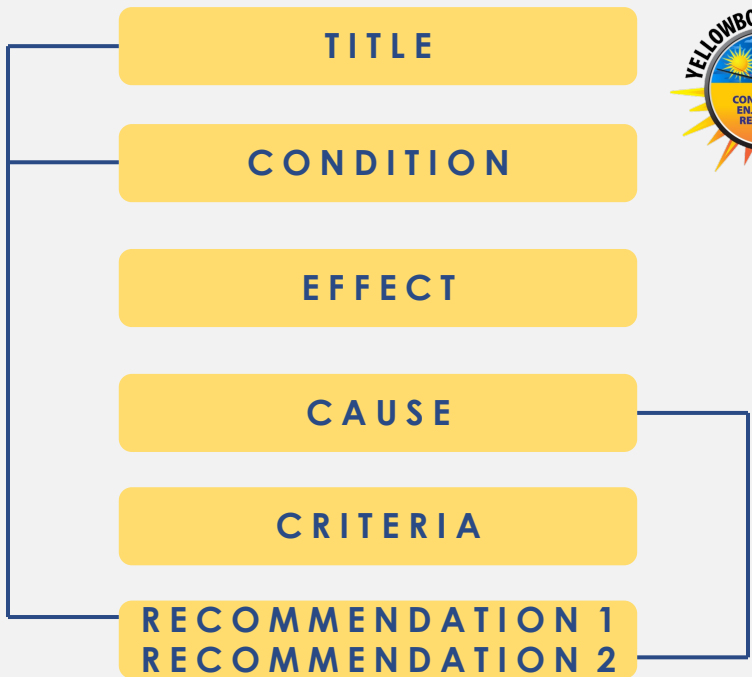
**ONLY 1 OF EACH ELEMENT**

Because the more you add to the finding, the more obscure your true message becomes.

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How the elements of a finding "match"



**TITLE**

**CONDITION**

**EFFECT**

**CAUSE**


**CRITERIA**

**RECOMMENDATION 1**  
**RECOMMENDATION 2**

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Are you trying to hide something?

**USE CONCRETE LANGUAGE**


Obscure: Internal controls over cash are weak.

Couching: Internal controls over cash are weak. Clerk does not perform cash reconciliations.

Concrete: Clerk does not perform cash reconciliations.

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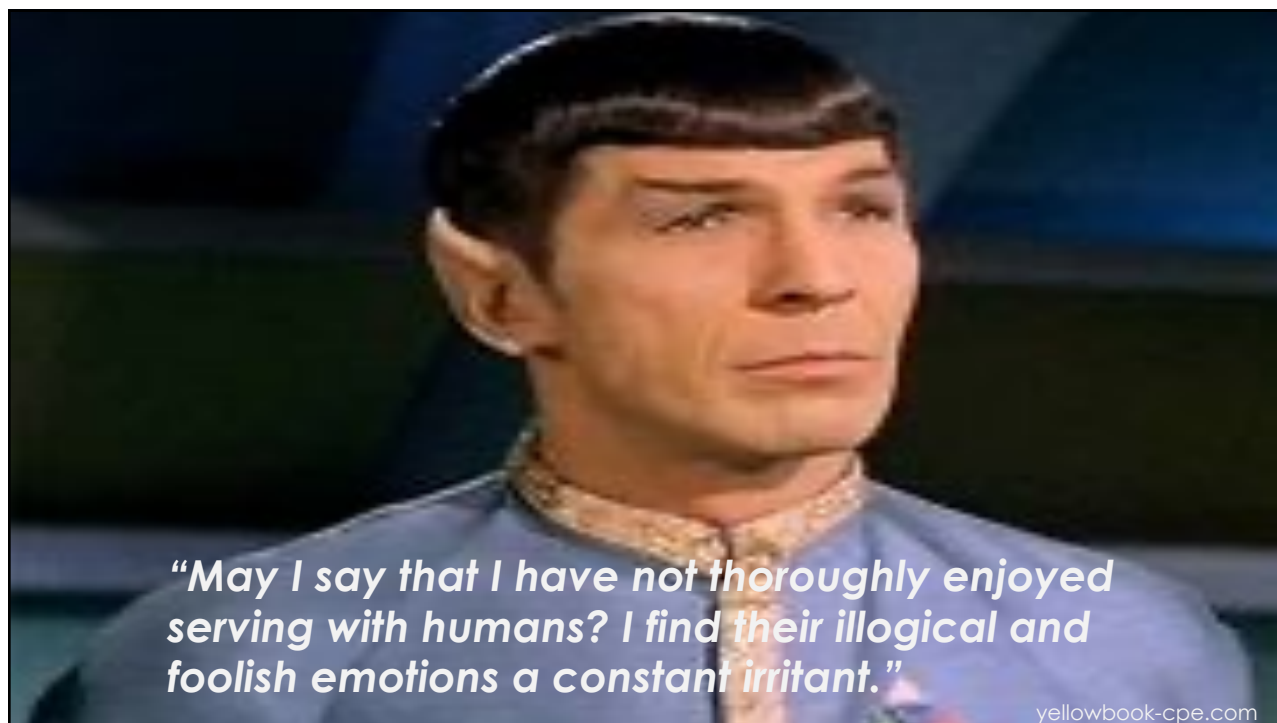
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MEAN	VAGUE
Weak	Internal Controls
Poor	Supervision
Inadequate	Documentation
Failure To	Monitor
Insufficient	Oversight
Lacking	Training

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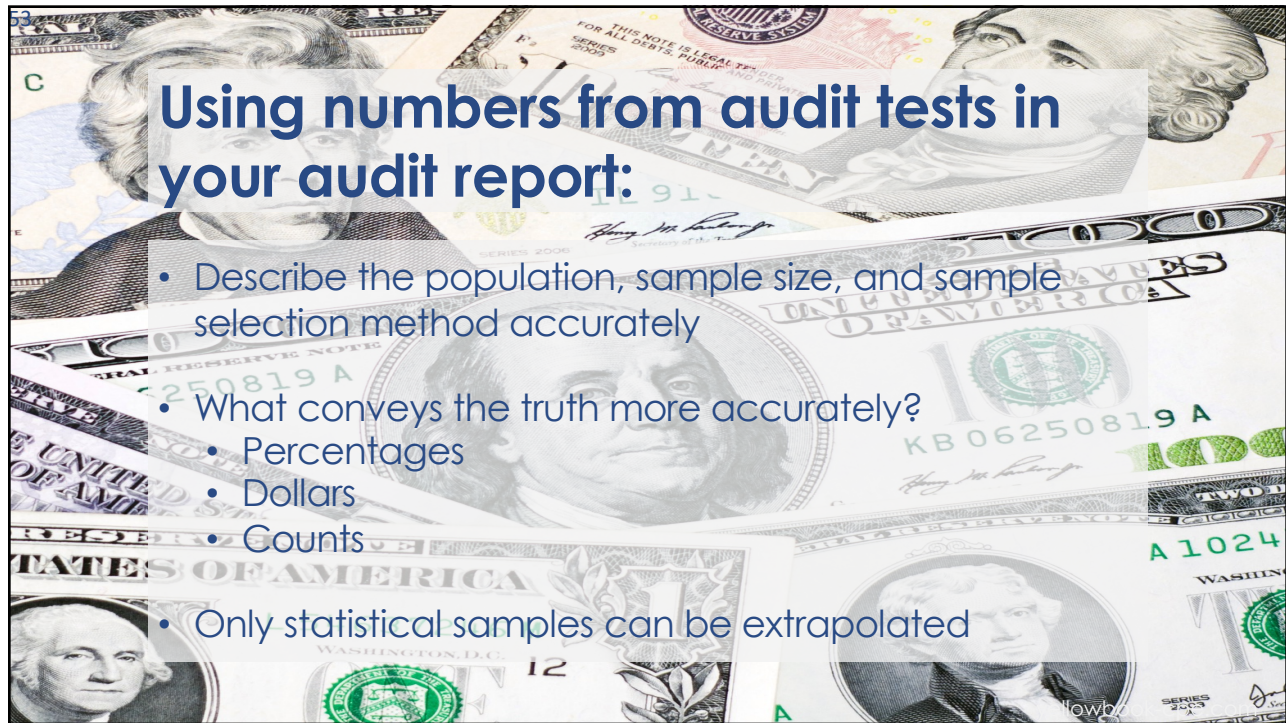
**QUANTIFY USUALLY IN THE EFFECT**

- Entire audit subject
- Fluctuation in audit subject
- True error
- Quantify in dollars, human impact, customer impact, impact on key performance metrics
- Benchmark against similar organizations

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## Using numbers from audit tests in your audit report:

- Describe the population, sample size, and sample selection method accurately
- What conveys the truth more accurately?
  - Percentages
  - Dollars
  - Counts
- Only statistical samples can be extrapolated

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## Which of the following is more honest?

1. 20% of payments to vendors are not approved.
2. 6 out of 30 payments (20%) tested were not approved.
3. We tested 30 payments, selected randomly, from a population of 9732 payments during fiscal year 2015. Of these 30 payments, 6 were not approved.
4. Same as above add: The 9732 payments represented \$2.2 million in vendor payments. The 30 payments sampled totaled \$38,798 and the 6 unapproved payments totaled \$8,231.
5. The organization paid over \$2.2 million to vendors in 2016. We estimate that 20% or over \$440,000 in payments were not approved.

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## 2 CFR §200.516 Audit findings.

(7) Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified must be **related to the universe and the number of cases examined** and be **quantified in terms of dollar value**. The auditor should report whether the sampling was a statistically valid sample.

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### BS INDICATORS

- Generally/In general	- Consider
- Approximately	- Internal controls
- Appears	- Management
- Stated/said/asserted	controls
- Could be	- Adequate
- Might be	- Insufficient



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**Identify who is responsible:** not their name, but their role.

So that when you follow up – they won't point to each other and say, *"I thought you were doing that!"*



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# DEAD END CAUSES

**Rude:**  
 Lazy  
 Stubborn  
 Ignorant  
 Incompetent  
 Uncommunicative

**Obvious:**  
 No money  
 No time

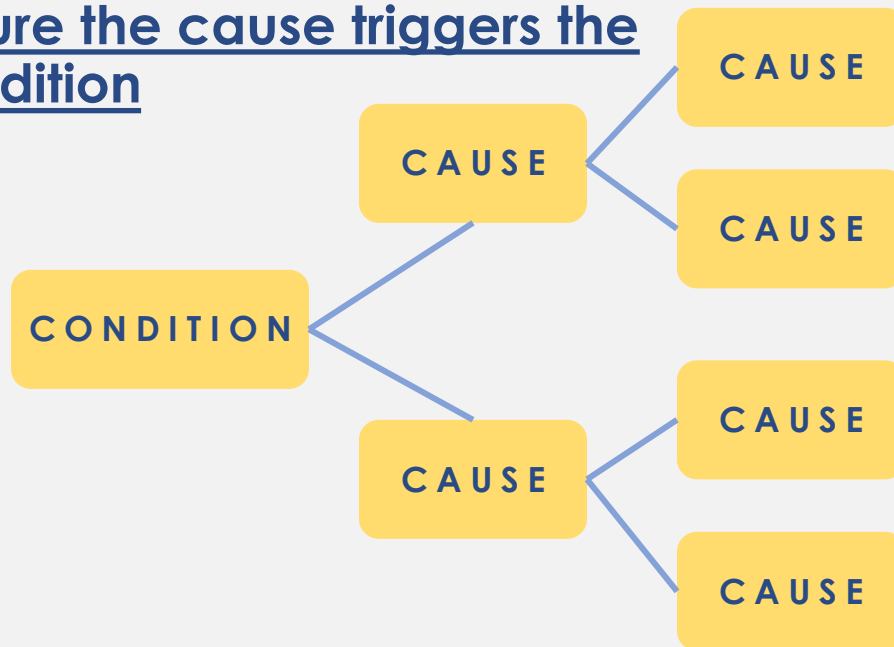
**Crutches:**  
 No P&P  
 No training

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## Ensure the cause triggers the condition



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## Statements without evidence



This could potentially lead to the grant being cancelled.



Errors and irregularities could go undetected.




This results in a potential risk of fraud or misappropriation

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## Internal Controls are the Cause

**6.18** Auditors should consider internal control deficiencies in their evaluation of identified findings when developing the cause element of the identified findings.

**8.130** Considering internal control in the context of a comprehensive internal control framework, such as *Standards for Internal Control in the Federal Government* or *Internal Control—Integrated Framework*, can help auditors to determine whether underlying internal control deficiencies exist as the root cause of findings.

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## IDEAL FORMAT OF A FINDING

CONDITION: Compliance test result

EFFECT: Quantification of test result

CAUSE: Control test result

CRITERIA: Standard used to evaluate compliance

RECOMMENDATION: Resolves the compliance issue (condition) and strengthens controls (cause)

All statements in the audit finding should be supported by evidence

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### 3 Generic Causes

1. **Physical** – Tangible, material items failed in some way (for example, a copier stopped working)  
Results in 'get more money, get more time' recommendations
2. **Human** – People did something wrong or did not do something that was needed. Human causes typically lead to physical causes (for example, no one performed bi-annual maintenance on the copier which resulted in the copier failing)  
Results in recommendations that blame individuals
3. **Organizational** – A system, process, or policy that people use to make decisions or do their work is faulty (for example, no one person was responsible for copier maintenance, and everyone assumed someone else had scheduled copier maintenance).  
Results in recommending stronger controls (and possibly creating a bureaucracy)

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### Is it the people or the system?



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## Expectations for Crafted Findings

- Use all 5 elements
- Create only one of each element
- Make sure the elements match
  - Condition matches recommendation
  - Cause matches recommendation
- Use concrete language
- Quantify
- Identify who is accountable
- Remove emotion & mild insults
- Ensure that the cause triggers the condition
- Imagine the evidence that backs up all elements

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### Fleeced: Your Money for This?

**A hard look at the silly and scandalous ways your tax dollars are squandered.**  
**By: Dale Van Atta**

#### Flying Blind

The Department of Defense may know a lot about weapons systems, but apparently it is not comprised of financial wizards. Over a handful of years, the DOD has managed to spend an estimated \$100 million and may have even spent as much as a quarter billion dollars of hard-earned taxpayer funds on airline tickets for its employees – airline tickets that nobody actually used.

"Imagine if you purchase a fully refundable airline ticket for \$600 or \$700 and didn't use it. Would you just put it in your dresser drawer and forget about it?" asks Sen. Charles Grassley of Iowa. "Of course not. That would be like dumping your money down the drain. Well, that's just what the Department of Defense has done, except it has done it many times over, with millions of dollars of the taxpayer's money."

When the Government Accountability Office took a closer look at the issue, it found that "the DOD was not aware of this problem before our audit and did not maintain data on unused tickets." So the GAO actually had to ask the commercial airlines themselves (American, Delta, Northwest, United and US Airways) to provide what information they had on DOD tickets.

Using the data from the airlines, the GAO found that the DOD had not received refunds for at least 139,000 totally or partially unused tickets issued in fiscal years 2001 and 2002. That included, for example, and \$8,100 business-class ticket from Atlanta, Georgia, to Muscat, Oman, as well as a \$9,800 business class ticket from Washington, D.C., to Canberra, Australia. Continued...

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**FLEECED...** By extrapolation, the GOA considered it a 'conservative' estimate that at least \$100 million in unclaimed refunds remained for tickets purchased from 1997 to 2003.

But the fleecing doesn't stop there. A related GAO investigation revealed that the Defense Department travel system is rife with fraud. In one case, a high-ranking DOD official claimed a reimbursement of \$9700 for 13 airline tickets for which he never paid. He contended that he didn't notice that nearly \$10,000 had been added to his bank account. A Navy seaman used DOD travel credit accounts over a six month period to buy 70 tickets at a cost of \$60,000, which he then used or resold at discounted rates to friends and family.

Unfortunately, at this point, tens of millions of dollars of taxpayer money have been thrown away during a time of high deficits and a war on terrorism – when soldiers have died for a lack of adequate body and vehicle armor. "Every dollar wasted by the Pentagon is a dollar that could be spent on the war against terrorism," says Sen. Susan Collins of Maine.

Senator Grassley concurs: "It's outrageous, and the fact that the Defense Department didn't even know it was wasting this money is even worse than \$100 million down a rat hole."

Sheesh. After emptying out our wallets for so many dubious projects, you'd think the US Government would at least say thank you.

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## University Violated Numerous Biosafety Rules, Federal Agency Says

By JEFFREY BRAINARD

Texas A&M University at College Station violated a dozen safety and security rules for research on dangerous microbes, federal officials say. The government says it will continue its two-month-old suspension of such studies at the university until the problems are fixed.


The findings came in a letter to the university on Friday from the federal Centers for Disease Control and Prevention, which regulates research on microbes and toxins that could be used in biological attacks. The agency's continuing suspension of Texas A&M has struck a blow at the university's goal of becoming a national leader in research to counteract such attacks.

The violations alleged by the CDC include the university's inability to account for at least three vials of microbes, which the CDC described as "missing." In addition, one researcher was working to develop antibiotic-resistant strains of a regulated bacterium even though he had not received the CDC's permission.

What's more, laboratory workers did not don proper laboratory clothing or face masks to prevent their becoming infected and sometimes wore the clothing outside of the lab before it was decontaminated. At

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**UNIVERSITY:**

...least seven times, workers were given access to regulated microbes before they gained permission under CDC rules, which require each worker to undergo a background security check.


The letter describes the findings of an 18-member CDC inspection team that visited Texas A&M for five days in July. In late June, the agency had suspended all of the university's research with microbes defined as "select agents" under federal rules that took effect in 2002 as a result of the anthrax attacks a year earlier. The June suspension, the first of its kind, came after the university failed to promptly report two cases of accidental exposure of laboratory workers to infectious agents (The Chronicle, July 13).

The inspector general's office of the U.S. Department of Health and Human Services, the CDC's parent agency, will now review the center's findings. The office has the power to fine the university up to \$500,000 per violation. Under the rules, individual researchers involved face fines of up to \$250,000 and prison terms of five years for each violation.

In its letter Friday, the Centers for Disease Control did not characterize the severity of the alleged violations, and an agency spokesman, Von Roebuck, said the CDC would not elaborate.

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**UNIVERSITY:**

...A Texas A&M spokeswoman, Sherylon Carroll, said university officials had scheduled a news conference for Thursday morning and would not comment before then. University officials have said that none of the university's regulated research threatened the public.

But a critic said the university repeatedly disregarded public safety. "It's obvious that the program" at Texas A&M "was a disaster," said Edward Hammond, director of the American office of the Sunshine Project, an arms-control group that first publicized apparent problems at Texas A&M after obtaining public documents. "What's really striking" about the university, he said, "is the breadth of the violations. It's in all different aspects of their program."

Among the problems cited by the CDC are the following:


The three "missing" vials contained *Brucella abortus*, a bacterium that causes fevers, but rarely death, in humans. They were used by a former university researcher.

Texas A&M's plans for safety, security, and emergency response involving research on the microbes were listed as drafts, and the university had not conducted drills at least annually to test the plans' effectiveness.

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**UNIVERSITY...** The university failed to produce several types of relevant records. They included training records for regulated lab workers, and documentation that deficiencies identified by the university's internal oversight board, the Institutional Biosafety Committee, had been corrected.

There was no coordinated response or assessment after routine blood tests of laboratory workers indicated possible exposure to microbes being studied.


Three of four principal investigators inspected by the CDC had "poorly organized inventory records" of the microbes they were studying, making "inventory reconciliation difficult and cumbersome."

A laboratory device used in the research lacked a required filter to catch dangerous microbes in its exhaust.

Days after the inspectors' visit, the university's vice president for research, Richard E. Ewing, resigned from that position. Texas A&M has since hired Claudia A. Mickelson, a biosafety expert from the Massachusetts Institute of Technology, to advise the university about how to improve its compliance with all select-agent rules.

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**How to spend opioid settlements wisely: Prevent more deaths like my nephew's**  
By Congressman David Trone

In 2016, my nephew Ian died of fentanyl overdose alone in a hotel room at the age of 24. Ian Jacob Trone had been clean for 18 of the last 21 months of his life before he became one of the 400,000 people in our country who have died from an opioid overdose in the past two decades.

For five years, I worked directly with him as he transitioned in and out of halfway houses, served time in prison for petty theft, and eventually moved to North Carolina so 'new places and new faces' would keep him from the environment that had become an accomplice to his addiction.

Ian's picture sits in my office as a reminder of the reason I ran for Congress – to help those that are struggling but don't have a political action committee or a lobbyist to fight on their behalf. Those suffering from substance use disorder face an array of challenges from mental health disorders and stigma to an unjust incarceration system that keeps them from successfully engaging in long-term recovery.

What caused the opioid epidemic that took my nephew's life and the lives of 130 Americans every day?

In part, the pharmaceutical companies that flooded our communities with prescription drugs and falsely claimed in the 1990s that their new opioid drugs were less addictive alternatives to painkillers. Recent news reports indicate that Purdue Pharm, members of the Sackler family that owns Purdue, and other companies, including drug distributors, have agreed to settle many of the lawsuits related to the role of these companies in fueling the opioid epidemic.

It is welcome news that the companies that profited from the opioid epidemic will soon be held responsible for the pain and financial damage they caused. When all is said and done, the amount of money that will flow from these opioid related settlements could reach about \$50 billion.

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## How to spend opioid settlements wisely: Prevent more deaths like my nephew's

These settlements represent a prime opportunity to solve not just the symptoms of the crisis, but the root cause as well. In order to do so, we must put the funding toward solutions that work:

- We need a permanent prevention education program modeled on the Truth Initiative that was funded by the 1998 tobacco settlement. Over the past two decades, Truth helped reduce youth smoking rates from 23% in 2000 to 4.6% in 2018, saving countless lives and taxpayer dollars. We need the same multigenerational effort to end prescription drug abuse.
- We should make naloxone and other overdose reversal medications available in every community across the country. We know this would save lives. A program in Hamilton County, Ohio, made naloxone available at no cost to as many residents as possible, which resulted in a 31% reduction in overdose deaths and a 42% reduction in emergency room visits in just two months. We should expand this effort to benefit all Americans.
- Money should be set aside to make evidence-based treatment available for everyone struggling with addiction. Three medications have been approved to treat opioid disorder – methadone, buprenorphine, and naltrexone.
- These medications can be hard to find in areas without treatment facilities and when health care specialists choose not to prescribe them. We need to make this treatment easier to access so all patients have a chance at successful recovery. This means opening up more quality treatment facilities (both inpatient and outpatient) and making them affordable, ensuring high standards for recovery residences to help transition people back to stability, and providing the wraparound services needed to holistically address this chronic disease.

Those at the negotiating table are not the only ones with a role to play. Congressional hearings should call attention to these needs and the details of the settlement. Parties on both sides of the settlement talks – and the officials who will be responsible for spending the proceeds – need to know that Congress expected the money to be spent in ways that will address the root causes of the crisis, and that we will conduct oversight hearings and use other means at our disposal.

We've lost a staggering number of individuals whose absence has induced exponential pain for many families, including my own. Our health care system, economy, and government and family budgets have paid the price. We must act with resolve to end this crisis, save lives, and give a platform to the voices that have been left behind in this epidemic.

Structured appropriately, the funding from the opioid-related settlements can be a meaningful step forward in our fight to end the opioid crisis and honor the lives we were unable to save.

Rep. David Trone, D-Md., founded the bipartisan Freshman Working Group on Addiction writing in USA Today, November 6, 2019

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## STORY TELLING VS. PABUM

Eleanor Rigby  
picks up the rice  
from the church  
where the  
wedding has  
been...

Father McKensie  
wipes off the dirt  
from his hands as  
he walks from the  
grave. No one  
was saved.

She loves you,  
yeah, yeah,  
yeah!

Love, love me  
do. You know I  
love you. I'll  
always be true.

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## HOW IS THIS ONE? A



**Criteria:** The County's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles. Effective internal control requires proper review and approval of journal entries by authorized personnel.

**Condition:** There were a number of audit adjustments needed to assure that the financial statements are fairly presented in accordance with generally accepted accounting principles.

**Effect:** Material misstatements caused by error or fraud can occur and not be detected and corrected, by management, in a timely manner.

**Cause:** Management has improved the year end closing process, however there were audit adjustments needed to prepare the financial statements. The nature of the adjustments were primarily needed for the multi-year capital projects.

**Recommendation:** We recommend the county continue to analyze their financial information in all funds in preparation for the audit.

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## HOW IS THIS ONE? B

**Condition:** The Fiscal Management Section of the State Treasurer's Office recommends governmental entities, with taxing authority, maintain fund balance available for appropriation in the general fund at a level equal to 8 percent of expenditures in the general fund or 50% of the population group average.

**Effect:** The County's fund balance available for appropriation is approximately \$317,000, or 1.7 percent of expenditures in the General Fund, which is approximately \$1 million less than the suggested fund balance of 8 percent of general fund expenditures.

**Cause:** The County's reserves may not be sufficient in the event of an emergency.

**Recommendation:** Even though total fund balance in the General Fund increased, the amount of available fund balance decreased due to interfund borrowings from other funds because requests for reimbursement under various state grants had not been received by year-end.

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## HOW IS THIS ONE? C

Condition: One of four computers tested did not have the password-protected screen saver settings enabled.

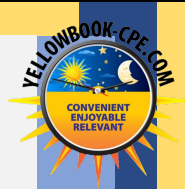
Criteria: According to Section 5.18.15 of the University's Information Resources Use and Security Policy, "Unattended computer devices must be secured from unauthorized access... Logical security options include screen saver passwords and automatic session time-outs." As a best practice, password-protected screen savers should activate after 15 minutes of idle time.

Cause: Varies.

Effect: Unauthorized access to unattended devices may result in harmful or fraudulent disclosure, modification, or deletion of sensitive electronic data. In addition, it may lead to the misuse of critical applications or email accounts.

Recommendation: Management should ensure that the password-protected screen saver settings are enabled to activate after 15 minutes of idle time.

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## HOW IS THIS ONE? D

Condition: Staff members do not retain documentation of reconciliations between the participant entry fees received and what was deposited.

Criteria: According to Section 20.3.3 of the University's Handbook of Procedures, departments are required to maintain documentation for reconciliations.

Cause: Staff indicated that no documentation of reconciliation has been established as a result of departmental restructuring.

Effect: Without maintaining documentation for reconciliations, there is no way to verify that they are being completed and reviewed.

Recommendation: Management should ensure that documentation is maintained on file for reconciliations between the participant entry fees received and what was deposited on a timely basis.

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## HOW IS THIS ONE? E

### STAKEHOLDERS LACK UNDERSTANDING OF ENGINEERING'S ROLES AND RESPONSIBILITIES

Lack of full understanding of the role and responsibilities of Engineering Services has resulted in some incorrect perceptions by the stakeholders. Communication needs to be increased to provide more insight about the engineering process. Mutual understanding of the project objectives and engineering requirements must be agreed upon early in the project life cycle. Stakeholders should be informed of the criteria for engagement of an outside engineering company. The Engineer's role when an outside engineer service is used needs to be clarified and communicated to the project team. Design considerations and alternatives should be fully documented. Engineers need to do a better job of explaining their professional requirements but not use them as the primary business objectives for their decisions. Enhanced communication with the stakeholders will improve the working relationship.

We recommend management consider increasing the level and nature of communication with their stakeholders to improve the working relationship.

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## A master's touch

What is your main reader's pet concern? Focus on that as an effect

Play with making the effect the condition

Play with making the condition the cause

Play with the most sensational, blunt, rude thing you could possibly say and actually write it

Create a version that makes you laugh

Walk away for as long as you can so you can approach it with fresh eyes

Invite your most trusted colleagues to give you feedback

Destroy it and rebuild it

Come up with 3 versions and let your colleagues vote on their favorite

Ask the client to write the recommendation and then match your argument to what they are willing to do


Think of approaching the finding as one step in a long-term journey. Take a baby step this year (focus on recommending policies and procedures?)

Keep copies of magazine and newspaper articles that move you, anger you, inspire you. Post them near your desk.

Read, read, read, read!

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**Do you need all the elements?**

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**Not all elements have to be used all the time**

**8.116** As part of a performance audit, when auditors identify findings, they should plan and perform procedures to develop the criteria, condition, cause, and effect of the findings to the extent that these elements are relevant and necessary to achieve the audit objectives.

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## AUDITORS VS. MONITORS

### What we are and what we are not...

Monitor	Auditor	Journalist
No standards	Follow professional standards	Loose standards
Work on behalf of management	Work for those in charge of governance, public	Work on behalf of the public
Check every compliance item and control	Perform formal risk assessment to choose subject matter	Go to where the story is
Compliance driven	Objective driven	Interest driven
Assess and help	Assess and report	Expose and inform
Not independent	Independent	Independent
Report conditions, seldom effects	Report conditions, cause, and effects	Report conditions & compelling effects

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## PROMISES, PROMISES!

9.03 We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain *sufficient, appropriate evidence* to provide a reasonable basis for our *findings and conclusions* based on our *audit objectives*. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.


### Two deliverables:

1. conclusion/opinion
2. findings

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## SOLID AND PROBLEMATIC STRUCTURES FOR FINDINGS

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## What kind of question are you asking?

- A control-oriented question?
- A fact-oriented question?

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**FACT VS. CONTROLS**

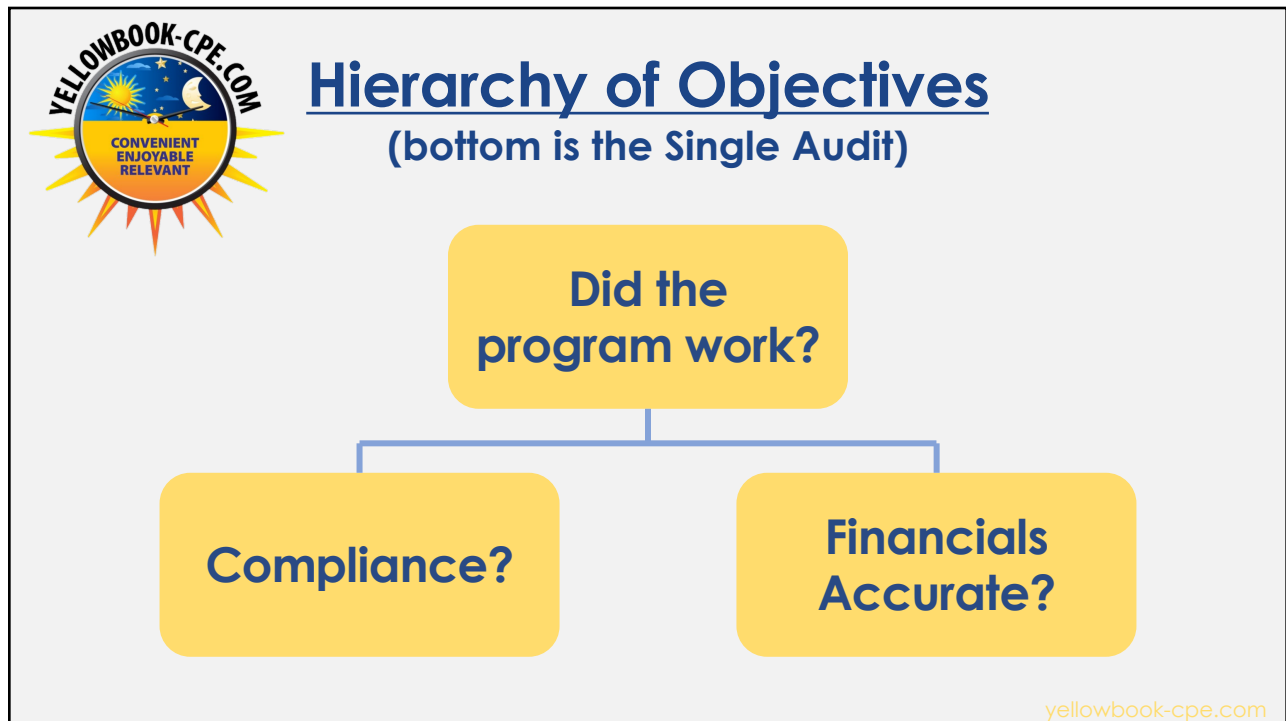
**FACT = @  
WORK ON TIME**

**CONTROL =  
ALARM**



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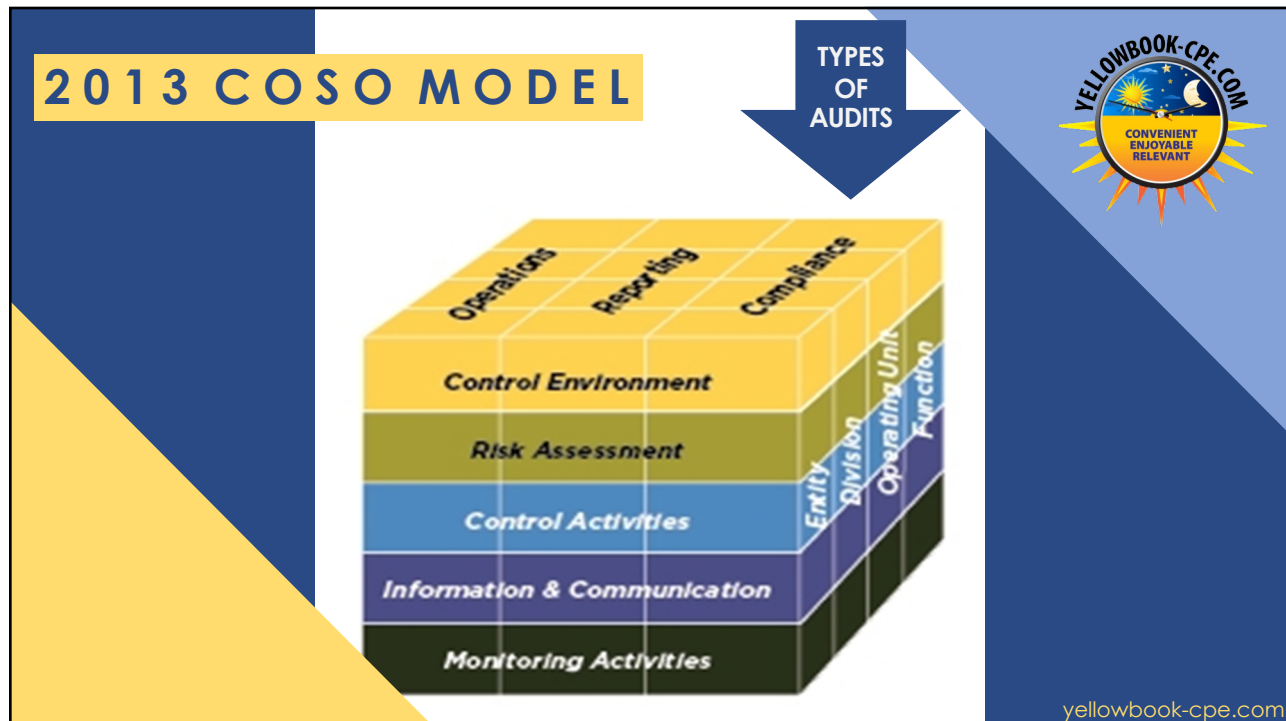
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## Example: School Lunch Program

- Did the program work?
  - Are lunches nutritious?
- Compliance?
  - Are children eligible?
- Financial accuracy?
  - Are financial reports sent to the grantor accurate?

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## Example with CONTROLS: School Lunch Program

- Did the program work?
  - Are lunches nutritious?
  - **Are controls in place** to make sure the lunches are nutritious?
- Compliance?
  - Are the children eligible?
  - **Are controls in place** to ensure the children are eligible?
- Financial accuracy?
  - Are financial reports sent to the grantor accurate?
  - **Are controls in place** to make sure the financial statements are accurate.


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**WEAK FINDINGS WILL ELICIT TOUGH QUESTIONS**

- Did that really happen?
- How did that happen?



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**NO CONTROLS=NO CAUSE?**

**8.130** Considering internal control in the context of a comprehensive internal control framework, such as *Standards for Internal Control in the Federal Government* or *Internal Control—Integrated Framework*, can help auditors to determine whether underlying internal control deficiencies exist as the root cause of findings. ⚠

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### 3 Generic Causes

1. **Physical** – Tangible, material items failed in some way (for example, a copier stopped working)  
Results in 'get more money, get more time' recommendations
2. **Human** – People did something wrong, or did not do something that was needed. Human causes typically lead to physical causes (for example, no one performed bi-annual maintenance on the copier which resulted in the copier failing)  
Results in recommendations that blame individuals
3. **Organizational** – A system, process, or policy that people use to make decisions or do their work is faulty (for example, no one person was responsible for copier maintenance, and everyone assumed someone else had scheduled copier maintenance).  
Results in recommending stronger controls (and possibly creating a bureaucracy)

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### Is it the people or the system?



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**DEAD END CAUSES**

**Rude/blaming**  
 Lazy  
 Stubborn  
 Ignorant  
 Incompetent  
 Uncommunicative

**Obvious:**  
 No money  
 No time

**Crutches:**  
 No P&P  
 No training



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**IDEAL COMPLIANCE FINDING**

**CONDITION:** Noncompliance described  
**EFFECT:** Quantification of noncompliance  
**CAUSE:** Failed control  
**CRITERIA:** Compliance requirement  
**RECOMMENDATION 1:** Ensure compliance  
**RECOMMENDATION 2:** Repair control



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## Complete Finding

Answers all relevant questions for the reader:

*What went wrong?*

*Why does it matter?*

*How did it happen?*

*What should have happened?*

*What are we going to do about the problem and the cause?*

CONDITION: County pays for emergency transportation services not provided

EFFECT: \$220K overpaid, may have to pay the federal government back

CAUSE: County does not review supporting documents

CRITERIA: Federal grant terms...

REC 1: County pays only for services provided

REC 2: County reviews supporting documents

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## Flatter Finding

Does not answer all questions for the reader

*What went wrong?*

*How big a deal is it?*

*What should have happened?*

Recommendation is not 'helpful' and does not get at the cause

CONDITION: County pays for emergency transportation services not provided

EFFECT: \$220K overpaid, may have to pay the federal government back

CRITERIA: Federal grant terms...

REC 1: County pays only for services provided

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**MISSED GOALS/  
PURPOSE  
FINDING**

**CONDITION:** Did not achieve program goals  
**EFFECT:** Quantification of impact  
**CAUSE:** Failed control OR noncompliance  
**CRITERIA:** Compliance requirement  
**RECOMMENDATION 1:** Ensure meet goals  
**RECOMMENDATION 2:** Repair control or ensure compliance

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**INTERNAL CONTROL  
FINDING**

**CONDITION:** Internal control failure described  
**EFFECT:** Quantification of impact  
**CAUSE:** Another failed control?  
**CRITERIA:** Green book  
**RECOMMENDATION 1:** Repair internal control  
**RECOMMENDATION 2:** Repair internal control

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## Silly Finding

This finding does fill in the blank labeled "cause"... but ends up being insulting because it started on a weak foot (with an internal control weakness as the condition).

The client will ask, "Did this really happen?"

**CONDITION:** County does not review supporting documents for emergency transportation services

**EFFECT:** May have overpaid for services.

**CAUSE:** County employees are overworked, overwhelmed, out of money, did not place priority on the task, were unaware of regulations, etc.


**CRITERIA:** Federal grant terms...

**REC 1:** County pays only for services provided

**REC 2:** Something silly and insulting

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## WHICH IS WHICH? FACTOR OR CONTROL

**Objective:**  
**Defective products  
are promptly  
returned to the  
vendor**

1. Auditor confirms with the vendor that items were returned
2. Auditor pulls a sample of returns to verify that the return checklist has been filled out and that the required elements of documentation are present. The return checklist asks for : dollar value, vendor address, description of item, SKUs, shipping method, evidence of shipment, etc.

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## WHICH IS WHICH? FACTOR OR CONTROL

**Objective:**  
**Is the department  
in compliance with  
HR policies  
regarding  
overtime.**

1. Auditor ensures that the time tracking software contains an edit function that flags hours over a pre-determined limit as overtime.
2. Auditor recalculates overtime charges from a sample of employee time records and traces the correct payment amount into the payroll system.

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## WHICH IS WHICH? FACTOR OR CONTROL

**Objective:**  
**Accuracy of  
performance  
indicators**

1. Auditor recalculates performance measures that are reported and evaluates accuracy.
2. Auditor verifies that a supervisor reviews the performance measure report before it is submitted to headquarters.

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## No controls = No cause?

**8.117** Auditors should consider internal control deficiencies in their evaluation of identified findings when developing the **cause element** of the identified findings when internal control is significant to the audit objectives.

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## No controls = No cause?

**8.130** Considering internal control in the context of a comprehensive internal control framework, such as *Standards for Internal Control in the Federal Government* or *Internal Control—Integrated Framework*, can help auditors to determine whether underlying internal control deficiencies exist as the root cause of findings.

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# PROMISES, PROMISES!

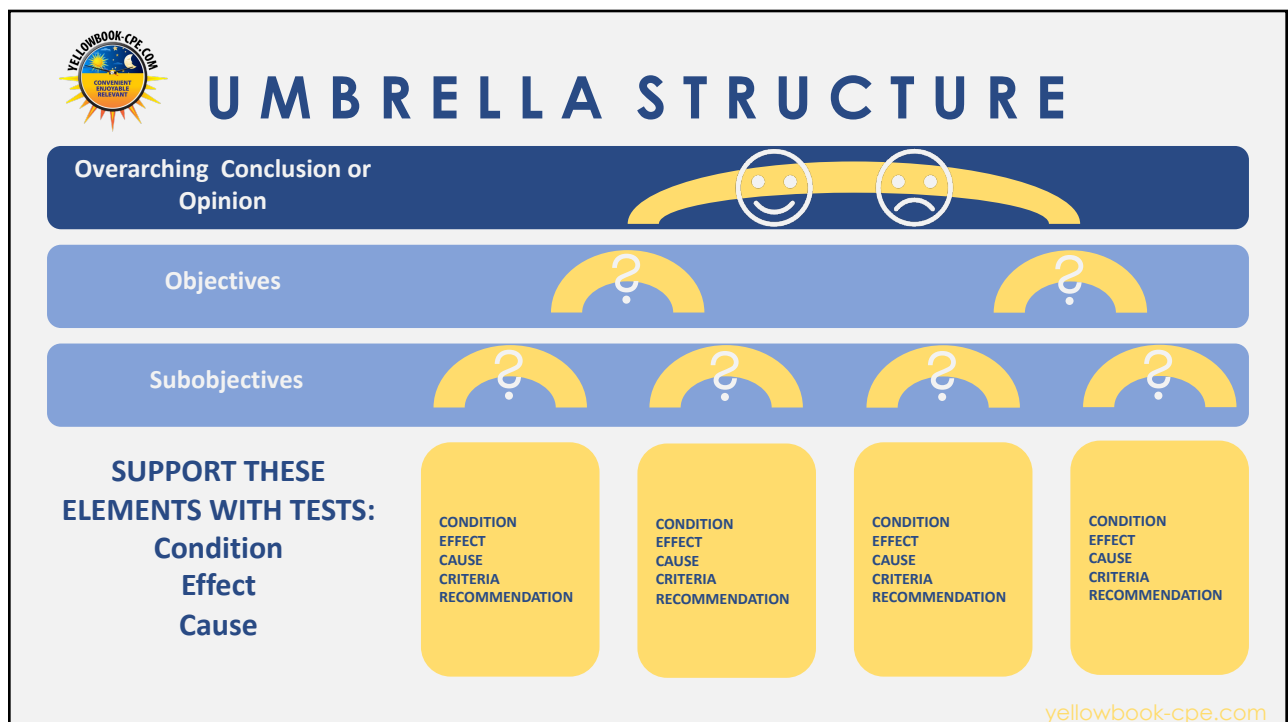
9.03 We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain *sufficient, appropriate evidence* to provide a reasonable basis for our *findings and conclusions* based on our *audit objectives*. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Two deliverables:

1. conclusion/opinion
2. findings

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## Love your reader



**Keep it real**

- Talk plain and use the client's language
- Stop talking about yourself
- Use compelling, concrete facts and examples

**Get a grip on yourself**

- Reduce complexity, drama, and doom-saying

**Thin is in**

- Do you really have to share that?

**Neon the main points**

- First, bolded, highlighted, boxed WHATEVER!

**Put lipstick on the pig**

- Small touches to improve the façade make a huge difference

**Put up signs**

- Use titles, fonts, and bullet lists to help the reader navigate, scan and digest your message

**Linkage**

- Finite objectives link to solid conclusion
- Conclusions link to findings
- Conditions and causes link to recommendations

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## Leita Hart-Fanta, CPA, CGFM, CGAP


Leita Hart-Fanta, CPA, CGAP has developed curriculum and taught seminars for hundreds of audit teams including Walmart, Schlumberger, Valero, Sandia Labs, the Veteran's Administration, the University of Texas and the City of San Francisco. She also teaches courses for local IIA Chapters around the country.

Leita started her audit career in public accounting and regularly conducts training for CPA firms on auditing standards. She served as a legislative auditor and a federal grants controller before she started her training business.

She is the author of over a dozen books on auditing and accounting, including essential audit skills, risk assessment, audit reporting, audit standards, and accounting essentials. Leita's two best sellers are the McGraw-Hill book "Accounting Demystified" and the self-study course "The Yellow Book Interpreted." She is the founder of Yellowbook-CPE.com, a website that offers self-study courses for auditors.

She lives with her fishing obsessed husband and two beautiful tween daughters in Austin, Texas.

To learn more about Leita, see her websites at [www.yellowbook-cpe.com](http://www.yellowbook-cpe.com)



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